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SENSITIVE

STATE FOR NEA/ELA AND EEB/IFD/ODF
STATE PASS USTR FRANCESCKI
STATE PASS USAID LAUDATO/NANDY/SCOTT
TREASURY FOR PARODI/BLEIWEISS/AHERN
USDOC FOR 4520/ITA/MAC/ONE
NSC FOR SHAPIRO/MCDERMOTT

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SUBJECT: LEBANON: ON ELECTION DAY, WILL MOBILE NETWORK BE
OVERLOADED? (ECONOMIC WEEK IN REVIEW, MAY 18 - 24, 2009)

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TELECOM PENETRATION
RATE UP AFTER COST
REDUCTION

11. (SBU) Following the reduction in mobile fees and charges by Ministry of Telecommunications (MOT), Lebanese consumers have rushed to acquire new mobile lines, now more affordable to low income users. Advisor to MOT Minister Antoine Boustani told us the two private companies managing the GOL-owned mobile network, MTC Touch and Alfa, registered a total of about 400,000 new mobile users as of January 2009. As a result, mobile penetration rose to 52% (compared to 30% in December 2008.)

12. (SBU) Boustani told us MTC Touch and Alfa are expanding their networks to reach gradually 400 base stations each by the end of June in order to increase coverage to serve 1.2 million subscribers. To avoid congestion on the network, both companies are increasing their subscriber base in line with the completion of new sites.

CONCERNS ABOUT MOBILE
NETWORK ON ELECTION DAY

13. (SBU) Meanwhile, a private sector telecom expert privately expressed concerns to us about a possible disruption in service or failure in the mobile telecommunications network on the June 7 election day, and its impact on elections outcome. Massive voter turnout is expected for 2009 parliamentary elections, which for the first time will take place on a single day, potentially overloading the capability of mobile networks exceeding. Mobile network

problems on election day could impede the flow of information, encourage rumors, and could cause chaos, the contact worried.

¶4. (SBU) With USG-designated Hizballah operating a parallel telecom network, a breakdown in mobile networks could provide an advantage to the opposition. Chairman of Telecom Regulatory Authority (TRA) Kamal Shehadi told us he advised Telecommunications Minister Gebran Bassil to stop expansion of the mobile base and instead start to optimize the current network, equip polling stations with land lines and pay phones, and provide the Lebanese Armed Force (LAF) and police with radio equipment.

SHARP INCREASE
IN FISCAL DEFICIT

¶6. (U) Figures released by the Finance Ministry show that the fiscal deficit reached \$1.14 billion in the first quarter of 2009, up 92.5% from the corresponding period in 2008. (Note: This is the highest fiscal deficit recorded in the first quarter of any year since 2000. End note.) The rise in the fiscal deficit is attributed to a 35% increase in total budget and Treasury expenditures, mostly due to a substantial rise in transfers to the national power utility EDL.

¶7. (U) Overall government expenditures reached \$3 billion, while total revenues reached \$1.88 billion. The deficit to expenditures ratio was 37.8% compared to 26.5% in the first quarter of 2008. (Note: This is the highest deficit to expenditures ratio in the first quarter of any year since 2003. End note.) Without structural reforms, fiscal vulnerability will remain the main weakness in the Lebanese economy.

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CENTRAL BANK
STIMULATES
SPENDING

¶8. (U) The Central Bank has recently issued circulars providing new incentives for commercial banks to lend to the private sector as well as to increase education and housing loans. The circulars cover interest rate subsidies on loans to productive sectors in Lebanese pounds and foreign currency as well as decrease the reserve requirements for commercial banks by sixty percent of the value of loans extended in Lebanese pounds.

¶9. (U) Private companies in the fields of agriculture, industry, tourism, handicrafts and information technology are eligible to benefit from interest rate subsidies on loans to finance existing or start new projects in Lebanon. According to prominent BLOM BANK investment group, BLOMINVEST, this incentive package is expected to increase loans to the private sector by one billion dollars and boost growth by one to 1.5%.

"AVERAGE" INVESTMENT
PROMOTION AGENCY

¶10. (U) The World Bank Group's 2009 benchmark survey on the effectiveness of investment promotion agencies in 181 countries placed the performance of the Investment Development Authority of Lebanon (IDAL) in the "average" category. The survey, jointly produced by the World Bank, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), examined the effectiveness of government agencies in promoting their countries to foreign investors. The assessments were conducted between March and September 2008. IDAL, a public agency under the Prime Ministry, is currently working on setting up the Investor Support and Information Center (ISIC), a data bank that will provide comprehensive, reliable, and up-to-date investment related information to prospective investors.

2008 PIRACY RATE
SLIGHTLY UP

¶11. (U) The U.S.-based Business Software Alliance (BSA), an industry group representing the world's leading computer software developers, ranked Lebanon 63 worldwide and fifth in the Middle East and North Africa region (MENA) in terms of piracy rate in 2008. The BSA annual report indicated that Lebanon's piracy rate was 74%, slightly up from 73% in the last three years (2005-2007). Lebanon also posted the 68th highest piracy-related dollar loss worldwide and eighth highest loss among the Arab countries. Piracy-related losses totaled \$49 million in 2008, up by 11.4% from \$44 million in 2007.

AMCHAM PROMOTES CORPORATE
SOCIAL RESPONSIBILITY

¶12. (SBU) On May 19, the American Chamber of Commerce's Better Business Group held a conference highlighting the importance of Corporate Social Responsibility (CSR) and the correlation between good corporate citizenship and positive business performance. CSR consultant Gina Chammas listed the Brand Protection Group (BPG) -- formed by a group of local companies conducting nationwide campaigns against counterfeit products since 2005 -- and the Lebanese Intellectual Property Alliance (LIPA) -- an initiative to fight software piracy that led to the destruction of 100,000 CDs valued at \$5 million -- as examples of CSR success stories.

SAUDIS BOOST
TOURISM

¶13. (U) According to Global refund, the tax refund operator for international shoppers, tourists from Saudi Arabia spent the most in Lebanon in the first four months of 2009, about 19 percent of total tourist spending, followed by tourists from Kuwait and UAE (13% each), and Egypt (8%). Fashion and clothing accounted for 67% of total spending, followed by watches (11%), and perfume and cosmetics (5%).

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NO PLANS TO
RECONSIDER
PORK BAN

¶14. (SBU) Dr. Obeida Moudawar, Chief of Animal Health Services at the Ministry of Agriculture (MOA) on May 22 told us the MOA has no intention for the time being to change its April 27 decision banning the importation of live pork and pork carcasses. There is no ban on importing processed and manufactured pork products, he said. Moudawar stressed that because Lebanon does not import live pork and imports very little pork carcasses, the MOA faced little opposition in passing the ban, a measure that sought to reduce panic among the Lebanese population about swine flu. When the MOA has a clearer picture of the extent of the pandemic, it may reconsider the decision, Moudawar said.

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